AR11

revenue properties company limited

1974

annual report

revenue properties company limited

DIRECTORS

Richard A. Bain, Toronto,
Partner, Siegal, Fogler, barristers and solicitors

Watson W. Evans, Toronto,
Retired

Maxwell Goldhar, Toronto,
President, Revenue Properties Company Limited

Paul W. Hellen, Toronto,
Solicitor, Revenue Properties Company Limited

Ken Kelman, Toronto,
Vice-President, First Canada Financial Corporation Ltd., financial consultant

Gurston I. Rosenfeld, Toronto,
Director, Gdn. Management Limited, investment management company

C. Harris Tod, C.A., Toronto,
Vice-President, Revenue Properties Company Limited

Sara Tuberman, Toronto,
Treasurer, Revenue Properties Company Limited

Michael G. Wright, Montreal,
President, Revcon Developments Limited

OFFICERS

President: Maxwell Goldhar
Vice-President: C. Harris Tod, C.A.
Secretary: Richard A. Bain
Treasurer and Assistant Secretary: Sara Tuberman
Controller: Warren H. Bock, C.A.

AUDITORS

Thorne Riddell & Co.

PREFERENCE SHARES

Registrar & Transfer Agent
National Trust Company, Limited

COMMON SHARES

Registrar & Transfer Agent
National Trust Company, Limited

Co-Registrar & Co-Transfer Agent
Bankers Trust Company

SENIOR DEBENTURES

Trustee: The Royal Trust Company

SUBORDINATED DEBENTURES

Trustee: National Trust Company, Limited

HEAD OFFICE

44 King Street West, Toronto, Ontario M5H 1E2

revenue properties company limited

and subsidiaries

annual report

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TO THE SHAREHOLDERS

I am pleased to report on your Company's progress during 1974.

You will note that the financial statements accompanying this report have incorporated in them the Company's share of certain of its joint ventures which were not consolidated in previous years. We have done this in order to present more accurately an overall picture of your Company's affairs, since joint ventures have come to assume a significant proportion of our operations.

The Consolidated Financial Statements show a net income of $492,388 before extraordinary items for the year ended December 31st, 1974 equal to 3.5¢ per share compared to $906,642 or 6.8¢ per share for the previous year. As we anticipated in my report last year, there was only a minor extraordinary credit to income by application of prior years' losses to income tax reduction in 1974 and as a result net income for 1974 after extraordinary items was $525,254 compared to $1,744,442 in 1973.

At the same time rental incomes increased while property operating expense decreased resulting in an increased profit of approximately $500,000 on this account after depreciation. This trend is expected to continue as a result of management's emphasis on increasing investment in revenue producing properties.

This past year has not been an easy one for your Company although some of the uncertainties which faced us at the beginning of the year were resolved or were moving toward final resolution.

One of the matters resolved was the disposition of our land assembly near the Nanticoke industrial development north of Lake Erie. We sold our options on approximately 11,000 acres to the Ontario Government at a modest profit.

Although construction of all kinds declined throughout 1974, the Company had no inventory of unsold completed units at the year end. Rents increased on both industrial and residential properties throughout 1974 and they are expected to continue to increase although perhaps not so dramatically. The Company expects to be able to take full advantage of these increases as it renews leases on properties which it owns or leases back, except for government subsidized rental housing.

Unlike the difficulties and uncertainties we have had with regard to the development of certain of our Ontario lands, our activities in Quebec have been most encouraging.

We have begun a 320-acre development around the Montreal suburb of Boucherville that, when completed, will contain approximately 2,000 housing units and 1.5 million sq. ft. of industrial buildings. Services for the first phase are being installed by the city and we have sold one industrial lot and commenced construction of an industrial rental facility. Construction of 125 houses will start this Spring and we have sold another 75 lots to builders. We expect to complete phase one of the project by the end of 1975.

We have been most fortunate in obtaining excellent co-operation from the administrators of the City of Boucherville and, working with them, have developed an attractive subdivision with pathways and bicycle trails in a parklike setting. Architecture of the proposed housing will reflect the culture of the community, which is almost entirely French-Canadian. Boucherville is on the south side of the St. Lawrence River just four minutes from the Ville d'Anjou Regional Shopping Centre on the Island of Montreal.

Elsewhere in the Montreal area we have now completed our first two buildings for lease in our six-acre industrial park in Pointe Claire and are planning construction of another 50,000 sq. ft. building for lease in 1975.

With the exception of Montreal, the major portion of our activity during 1974 was in joint ventures in Southern Ontario.

In our Simcoe joint venture with Victoria Wood Development Corporation, Inc. and Sifton Properties Limited, we expect to complete servicing of the first 225 lots in 1975. We purchased an additional 60 lots in an adjacent subdivision to give us a total of 285 lots for 1975 inventory. To date we have built and sold 17 houses and sold 60 lots to other builders. The pace of house construction is somewhat slower than anticipated. Forecasts of heavy population influx to support development of the huge Stelco steel mill and Texaco refinery in the area have proved to be premature and we do not now expect the influx to begin in heavy numbers until late this year. Servicing of our lots in Port Dover is now expected to begin in 1976.

In Oakville, where your Company is engaged in a joint venture for the development of a 210-acre site, water services, for which funds were advanced to the municipality, have been installed. Construction of a shopping centre and 41 town houses will begin this year on an adjoining 7-acre site in which your Company has a 37½% interest.

In Guelph, where we have a 75% interest in 875 acres, we plan to build 150 townhouses and 22 semi-detached houses this year. The market for this type of housing is particularly strong in this area.

In Toronto we have completed construction of and fully leased two apartment units totalling 438 suites at Jane St. and Wilson Ave. Construction of a third and fourth unit is under way. The third unit, which will be a senior citizens' rental building, is expected to be completed this year, and the fourth next year.

In Toronto and Mississauga we are engaged in joint ventures for the construction of 290 townhouses of which 60 have already been sold.

In downtown Toronto we are completing construction of 10,000 sq. ft. of commercial space on leased land in the Bay-Bloor area.

With regard to our holdings of 5,400 acres in Uxbridge Township, the decision by the Federal Government to proceed with construction of a second Toronto Regional airport clears the way for the beginning of definitive land use decisions by the newly-created Regional Municipality of Durham, although the speed with which these decisions will be made remains an important issue in the consideration of your Company's affairs.

At the moment, we have under active consideration proposals for immediate development of certain parcels of these holdings which could prove to be quite meaningful to our operations in this area in the future.

At the end of the year, arrears of approximately $3.1 million were owing for principal and interest to certain mortgagees of these properties and writs of foreclosure have been issued in respect to most of them. We anticipate that your Company will be required to pay all of the monies owing for principal and interest in 1975 in order to prevent foreclosure.

On balance, your directors expect that despite the proliferation of government regulations over land development and the consequent costly delays experienced in order to comply with them, your Company will continue its careful and positive climb back to realizing a reasonable return on equity.

On Behalf of the Board of Directors

MAXWELL GOLDHAR,
President.

Toronto, April 22, 1975.

revenue properties company limited

(Incorporated under the laws of Ontario)

and subsidiaries and joint ventures

ASSETS

	1974	1973
Cash and short-term deposits	$ 2,075,726	$ 3,302,133
Cash in escrow	455,541	309,657
Accounts, rents and other receivables (note 2)	2,069,750	3,739,688
Prepaid expenses	811,165	705,253
Mortgages receivable (note 3)	9,598,604	11,007,266
Balances receivable for land sold under agreements of purchase and sale	266,989	2,458,901
Real estate held for development or sale (note 4)	38,984,606	33,035,264
Revenue producing real estate (note 5)	35,884,093	32,430,780
Sundry investments and advances, at equity	225,609	455,900
Deferred currency adjustment (note 1(e))	2,059,875	—
	$92,431,958	$87,444,842

Approved by the Board:

Director

Director

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1974

(with comparative figures at December 31, 1973 as restated)

LIABILITIES

	1974	1973
Bank indebtedness	$ 1,041,793	$ 258,366
Bank loans, secured (note 6)	1,230,532	455,022
Accounts payable and accrued liabilities	4,951,535	5,720,948
Due to shareholders (note 7)	1,628,000	1,628,000
Estimated completion costs for land sold	113,495	520,415
Loans payable secured by mortgages receivable (note 8)	4,536,500	5,903,582
Mortgages payable on real estate held for development or sale (note 9)	14,939,409	13,149,455
Mortgages payable on revenue producing real estate (note 9)	24,789,678	22,436,621
9% Convertible sinking fund debentures (note 10)	13,295,125	11,928,625
7½% Convertible subordinated sinking fund debentures (note 11)	921,000	921,000
	67,447,067	62,922,034
Deferred income (note 12)	3,071,775	3,601,654
Deferred income taxes	2,052,908	1,588,700
	72,571,750	68,112,388

SHAREHOLDERS' EQUITY

Capital stock (note 13)	27,323,979	27,321,479
Deficit	(7,463,771)	(7,989,025)
Capital stock less deficit	19,860,208	19,332,454
	$92,431,958	$87,444,842

Lease and similar obligations, contingent liabilities and legal proceedings (notes 14, 15 and 16).

revenue properties company limited

and subsidiaries and joint ventures

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973 as restated)

	1974	1973
Real estate sales		
Held for development or sale	$ 6,270,310	$ 7,704,555
Revenue producing	488,988	—
Construction	1,458,620	1,035,507
Rentals	10,298,250	9,926,865
Interest	1,140,629	1,444,370
Income from sundry investments	25,462	243,418
	19,682,259	20,354,715
Real estate cost of sales		
Held for development or sale	5,221,549	5,601,566
Revenue producing	398,422	—
Construction	1,318,586	1,012,027
Property operating	6,846,570	7,033,669
Interest charges (note 17(a))	2,887,946	3,059,986
Administration and general	1,459,147	1,611,857
Discount on sale of mortgages	297,850	107,250
Depreciation	948,407	909,801
	19,378,477	19,336,156
Income before the undernoted items	303,782	1,018,559
Net transfer from deferred income	529,879	1,177,988
Income allocated — participating ventures	(64,609)	(311,043)
Gain on sale of investment in a joint venture	—	385,438
Currency adjustment previously accrued (note 1(e))	109,040	—
Income before income taxes and extraordinary item	878,092	2,270,942
Income taxes (note 17(b))		
Current	(111,370)	130,000
Current — subject to reduction by application of losses carried forward	32,866	837,800
Deferred	464,208	396,500
	385,704	1,364,300
Income before extraordinary item	492,388	906,642
Extraordinary item		
Income tax reduction on application of prior years' losses	32,866	837,800
Net income for the year	$ 525,254	$ 1,744,442
Earnings per share (note 17(c))		
Before extraordinary item	3.5¢	6.8¢
After extraordinary item	3.7¢	13.2¢

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973)

	1974	1973
Deficit at beginning of year	$7,989,025	$9,736,357
Net income for the year	525,254	1,744,442
Transfer from appropriation for second preference shares	—	2,890
Deficit at end of year	$7,463,771	$7,989,025

AUDITORS' REPORT

To the Shareholders of Revenue Properties Company Limited

We have examined the consolidated balance sheet of Revenue Properties Company Limited and subsidiaries and joint ventures as at December 31, 1974 and 1973 and the consolidated statements of income, deficit and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies and joint ventures as at December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles which, after giving retroactive effect to the change in accounting for unincorporated joint ventures referred to in note 1(a), and except for the change in accounting for the currency adjustment on the C and D series of the 9% convertible sinking fund debentures referred to in note 1(e), have been applied on a consistent basis.

Thorne Gunn & Co.

Toronto, Canada
March 26, 1975

Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1974

(with comparative figures for 1973 as restated)

SOURCE OF FUNDS	1974	1973
Funds from operations	$ 1,666,949	$ 1,506,197
Secured bank loans obtained	775,510	288,406
Mortgage receivable		
Payments received	1,027,917	4,318,535
Mortgages sold	2,779,228	1,392,750
Payments received on agreements of purchase and sale	2,446,465	4,399,452
Land, development and related costs realized through sales	7,002,065	6,173,282
Expropriation of Uxbridge, Ontario lands	473,603	2,660,387
Investments realized	285,131	540,287
Loans and mortgages obtained	13,392,334	8,009,604
Issue of common shares	—	1,204,750
Decrease in accounts receivable	1,669,938	—
Net changes in other assets and liabilities	—	2,138
	$31,519,140	$30,495,788

APPLICATION OF FUNDS		
Mortgages receivable and agreements of purchase and sale of real estate	$ 1,087,057	$ 4,336,757
Real estate purchases, development and construction costs	13,408,318	7,720,612
Capitalized interest and carrying charges	4,418,412	3,213,903
Increase in accounts receivable	—	942,965
Investments made in mortgages receivable	1,863,829	—
Loans and mortgages payable		
Assumed by purchasers on sale of real estate	2,487,794	876,235
Paid by the Company	8,128,611	10,074,784
Sinking fund debentures	682,886	355,338
Redemption of second preference shares	—	221,250
Decrease in accounts payable	769,413	1,004,226
Net changes in other assets and liabilities	536,770	—
	33,383,090	28,746,070
INCREASE (DECREASE) in funds	(1,863,950)	1,749,718
	$31,519,140	$30,495,788

Funds include cash, short term deposits and cash in escrow, less bank indebtedness.

Throughout these notes "the Company" refers to Revenue Properties Company Limited, its consolidated subsidiaries and its consolidated joint ventures unless the context indicates otherwise.

1. Summary of Accounting Policies

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

(a) *Principles of consolidation*

The consolidated financial statements include the following:

— the accounts of all companies in which the Company holds more than 50% of the voting equity. The principal active subsidiaries are:

	Ownership %
Century City Developments Limited	76.25
One Thirty One Bloor West Limited	100
Revcon Developments Limited	[illegible]
Revenue Properties Central Developments Limited	100
Rusuth Investments Limited	[illegible]

Revcon (Ontario) Limited, included in 1973, is no longer regarded as a principal active subsidiary.

— the accounts of all participating ventures in which the Company holds 100% of the real estate held for development and sale and for which the Company is responsible for all financing required. The Company's participation in net profits or losses of these ventures varies from 70% to 90%.

Change in accounting policy

The Company has changed its policy of accounting for its interest in joint ventures. In previous years, the Company accounted for these joint ventures using the equity basis; it now consolidates its proportionate share of the assets, liabilities, revenues and expenses of unincorporated joint ventures. The comparative figures for 1973 have been restated to reflect this retroactive change in accounting policy which has no effect on net income.

(b) *Capitalization of costs*

(i) The Company follows the policy of capitalizing direct carrying costs such as mortgage interest, realty taxes and other related costs as part of the cost of income producing properties under construction, lands held for and under development and housing projects under construction. With respect to construction projects, the construction period is generally considered to have ended when a rental occupancy of approximately 70% has been achieved, providing that there have been no abnormal delays in construction or rental.

(ii) The Company also capitalizes that portion of interest on general borrowings considered applicable to lands held for and under development owned by the Company or held in participating ventures.

(c) *Income Recognition*

(i) Sales of housing and land

Income from these transactions is recognized as follows:

House sales — at the date when title passes, at least 5% of the purchase price has been received, and all material conditions have been fulfilled or provided for.

Condominium sales — when the amount due on closing is received, the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price.

Land sales — when all material conditions have been fulfilled, at least 15% of the purchase price has been received, and interest has commenced to accrue at a reasonable rate on the balance due.

(ii) Construction income

Income from construction contracts is recorded on a percentage of completion basis.

(iii) Deferred income

The Company has deferred its proportionate share of the profits on sales to joint ventures in which it has an interest until such time as the property is conveyed to third parties. Profits on sale and leasebacks and similar transactions are amortized over the terms of the lease agreements.

(d) *Depreciation on revenue producing real estate*

Depreciation is provided using the straight-line method, based on the estimated useful lives of the various assets as follows:

Buildings	40-50 years
Furniture and equipment	10 years

(e) *Deferred Currency Adjustment*

Change in accounting policy

The Company has changed its policy of recording the currency adjustment on the series C and D 9% convertible sinking fund debentures. Formerly the Company charged against income the estimated currency adjustment applicable to those sinking fund payments and conversions falling due within one year.

Effective January 1, 1974 the Company has recorded the C and D debentures at the total amount payable, including the currency adjustment, at the rate in effect at the year end. The currency adjustment is carried as a deferred charge and is charged to income at the

time sinking fund payments and conversions are made during the year (see note 10(e)). The 9% debenture liability on the balance sheet at December 31, 1974 includes the deferred currency adjustment of $2,059,875 but the corresponding liability as at December 31, 1973 includes only the currency adjustment of $109,040 relating to the sinking fund payment for 1974. The effect of the change in policy on income in 1974 appears in the statement of income as "Currency adjustment previously accrued — $109,040". The change in policy is not applied retroactively as the change would have no material affect on previously reported net incomes and losses.

2. Accounts, rents and other receivables

	1974	1973
Rents	$ 885,261	$1,339,301
Subdivision deposits and construction contracts	548,336	692,213
Interest	198,551	195,427
Net receivable from expropriations	186,281	685,086
Due from participating partners of joint ventures	165,657	672,677
Notes and loans	85,664	154,984
	$2,069,750	$3,739,688

3. Mortgages receivable

Mortgages taken back on properties sold, including $3,546,555 on certain properties leased back or managed (see note 14), bear interest at rates which vary from 5¼% to 12%, weighted average 7.9%, and mature at various dates to 1999 as follows:

1975	$ 235,761
1976	
1977	
1978	
1979	
1980 and subsequent	6,751,060
	8,681,204
Second mortgages taken back on housing units sold mature at various dates to 1995 (interest rates vary from 6¾% to 10%)	917,400
	$9,598,604

Substantially all mortgages receivable are pledged against loans payable (see note 8).

4. Real estate held for development or sale

Land	1974	1973
Future development	$30,590,379	$24,174,272
Under development — freehold	4,800,977	3,310,570
Under development — leasehold interest	961,707	1,035,554
Construction in progress		
Industrial and commercial rental properties	41,857	4,675
Residential rental properties	2,589,686	1,732,575
Housing (including serviced land)	—	2,777,618
	$38,984,606	$33,035,264

Real estate held for development or sale is shown at cost. Land held for future development and freehold land under development at the balance sheet date were increased during the year by carrying costs of $4,387,837 ($2,571,713 in 1973).

The Company owns approximately 5,400 acres in Uxbridge, Ontario adjacent to the recently approved Pickering airport site. This acreage has a book value of $14,839,682 at December 31, 1974. Until such time as land use planning for that area is completed, the precise nature of future development of such lands cannot be determined; however, the Company proposes to proceed with such development in the area as may from time to time be permitted and appear desirable.

5. Revenue producing real estate

	1974	1973
Buildings and improvements, at cost	$39,570,467	$35,821,446
Furniture and equipment, at cost	513,338	486,957
	40,083,805	36,308,403
Less accumulated depreciation	7,775,869	7,009,664
	32,307,936	29,298,739
Land, at cost	3,576,157	3,132,041
	$35,884,093	$32,430,780

6. Bank loans

The bank loans are secured by specific lands under development and construction in progress at the year end.

7. Due to shareholders

The amount of $1,628,000 due to certain shareholders is secured by a second assignment of certain assets of the Company having a book value of approximately $3,000,000 at December 31, 1974 and which are pledged against other loans payable of $1,150,000. This amount is repayable with interest at 12% per annum as follows:

February 1, 1975	[illegible]
February 1, 1976-78 inclusive	$ 100,000 per annum
February 1, 1979	$ 540,000

On or after November 1, 1975 the shareholders may, on three months' written notice to the Company, call for payment in full of the balance of the loan then owing. In the event of such notice the Company may borrow on certain stated security the funds necessary to make the payment, and in such case, the shareholders must pay any costs incurred in excess of 12% per annum. The Company is entitled to withhold payment of $100,000 of the loan, which would continue to bear interest at 12% per annum to the extent that it would not be offset against the shareholders' obligation to pay the excess costs incurred.

8. Loans payable

Loans payable mature as follows:

1975	[illegible]
1976	1,431,000
1977	495,000
	$4,536,500

Fixed interest loans — $2,775,000

Range	10½% to 12%
Weighted average	10.8%

Variable interest loans — $1,761,500

Interest on these loans varies from 4% to 4½% above the minimum lending rate charged by the Canadian chartered banks.

9. Mortgages payable

Mortgages payable mature as follows:

	Secured by	
	Real estate held for development or sale	Revenue producing real estate
Arrears (see note below)	$ 2,152,825	
1975	4,890,413	$ 3,244,684
1976	2,281,405	2,419,520
1977	649,918	1,100,909
1978	546,407	1,189,613
1979	2,624,003	2,261,918
1980 and subsequent	1,794,438	14,573,034
	$14,939,409	$24,789,678
Range of interest rates	6% to 14½%	5¼% to 15%
Weighted average interest rate	9.3%	9.4%
Latest maturity	2024	2024

The arrears of $2,152,825 represent the aggregate principal amount of mortgages covering approximately 2,800 acres of land in Uxbridge, Ontario. No substantial payments have been made on these mortgages since May, 1970. In addition there is owing approximately $922,000 as at December 31, 1974 for accrued interest on these mortgages, and this interest is included in the balance sheet in "Accounts Payable and Accrued Liabilities". Writs of foreclosure have been issued in respect of the bulk of these mortgages, and it is anticipated that the Company will be required to pay all principal and interest in arrears in 1975 in order to prevent foreclosure.

10. 9% Convertible sinking fund debentures

		Principal	Maturity Date
(a)	Series A	$ 1,796,000	May 15, 1976
	Series B	1,199,750	June 1, 1981
	Series C	4,743,000	February 15, 1981
	Series D	3,496,500	June 15, 1981
		11,235,250	
	Add currency adjustment (note 1(e))	2,059,875	
		$13,295,125	

(b) *Sinking fund payments*

The Company is required to pay to the trustee annually on November 15 an amount sufficient to retire the following principal amounts of 9% convertible sinking fund debentures:

Series A $50,000 in 1975

Series B, Series C, Series D: Consolidated and shared by the Series B, C and D debentures rateably in proportion to the principal amount of each series outstanding on the October 5 immediately preceding the sinking fund payment date. Payments are $500,000 in 1975, and $1,550,000 in 1976 to 1980 inclusive.

At December 31, 1973, the Company had available a sinking fund credit in the amount of $19,000. During 1974 the Company purchased for cancellation an additional $85,000 principal amount of Series A debentures bringing the total principal amount available as a sinking fund credit to $104,000. On November 15, 1974, $50,000 of such principal amount was applied as a sinking fund credit leaving a balance of $54,000 at December 31, 1974 available for use as a sinking fund credit with respect to the Series A debentures in 1975.

At December 31, 1973, the Company held $265,500 Series B, C and D debentures which, as outlined in (c) below, cannot be used to meet sinking fund requirements. The Company was reimbursed for these debentures from cash held by the trustee in the amount of $246,750 during the year and the debentures were cancelled.

(c) *Sinking fund credit*

Although all series of debentures may be purchased or redeemed at prices not in excess of their redemption prices, Series A debentures are the only series which qualify for sinking fund credit.

The Company may be reimbursed for its purchase of any series of debentures from cash held by the trustee, up to a maximum of 80% of the redemption price (including the currency adjustment) of the puchased debentures, providing that the aggregate reimbursements for Series B, C and D debentures in any one fiscal year is limited to 50% of that fiscal year's consolidated sinking fund payment including the currency adjustment.

(d) *Convertible features*

Each series is subdivided into four equal separate sub-series. The principal amount of such sub-series (series C and D sub-series being adjusted for the currency relationship noted in (e) below) may be converted into common shares at any time prior to maturity as shown below:

Sub-series	Conversion price for one common share
I	$2.00
II	$3.00
III	$4.00
IV	$5.00

The above conversion prices are subject to anti-dilution provisions.

(e) *Currency adjustment*

Series C and D principal and interest payments, including sinking fund payments, are subject to adjustment (limited to a 25% increase or decrease) depending on any changes in the relative values of the Canadian and Federal Republic of Germany currencies, calculated at the date of or immediately prior to payment (see note 1(e)). The number of shares issuable on conversion with respect to Series C and D are subject to adjustment (limited to a 25% increase or decrease) depending on any change in the relative values of the Canadian and Federal Republic of Germany currencies calculated at the date of or immediately prior to conversion. The currency adjustment at December 31, 1974 would have been 40% but for the 25% limitation mentioned above.

(f) *Redemption*

The debentures are redeemable on or before maturity, in order of sub-series I to IV, at par plus accrued interest (adjusted for the currency adjustment noted in (e) above).

(g) *Security*

These debentures, Series A to D inclusive, rank equally and are secured by fixed and specific charges on certain mortgages receivable, certain revenue producing real estate, certain real estate held for development or sale and by a first floating charge on the assets and undertaking of Revenue Properties Company Limited. Substantially all of these mortgages receivable and real estate also secure various indebtedness which ranks in priority to this charge.

11. 7½% Convertible subordinated sinking fund debentures

(a) *Convertible features*

These 7½% convertible subordinated sinking fund debentures Series A in the amount of $921,000 are due June 30, 1988 and are convertible into common shares of the Company on or before June 30 in the years 1978 at $7.53 per share, 1983 at $8.91 per share and 1988 at $10.57 per share.

The conversion prices are subject to downward adjustment in the event that the Company issues any additional common shares, as defined, for a consideration per share different from the conversion price in effect immediately prior to the issuance of such shares. Of the shares reserved for possible issuance only those described in note 13(c)(iv) relating to the 9% convertible sinking fund debentures would affect the conversion prices. No debentures were converted during 1974.

(b) *Sinking fund requirements*

Under the terms of the Trust Indenture, a sinking fund is required to be established for the retirement of $700,000 aggregate principal amount of the debentures on June 30 in each of the years 1979 to 1988 inclusive. Since debentures converted into common shares and otherwise cancelled, amounting to $6,079,000 to December 31, 1974, can be applied against such sinking fund requirements, no sinking fund payments will be required until at least 1987.

(c) *Redemption*

These debentures are redeemable at par (i) to meet sinking fund requirements, and (ii) at any other time if throughout the 180 days prior to the date on which notice of redemption is given the market price of the common shares has not been less than 125% of the conversion price then in effect.

(d) *Subordination*

These debentures are subordinated to the prior payment in full of the sinking fund debentures referred to in note 10 and of certain other prior indebtedness.

(e) *Dividend restrictions*

There are restrictions under the terms of the Trust Indenture concerning payment of dividends.

12. Deferred income

Deferred income includes profits on certain transactions as follows:

	1974	1973
Deferred profit on sales to joint ventures in which the Company has an interest	$ 160,219	$ 501,329
Unamortized profit on sale and leaseback and similar transactions which will be amortized at the rate of approximately $135,000 per annum	2,911,556	3,100,325
	$3,071,775	$3,601,654

13. Capital stock

(a) *Authorized*

— 291,852.5 6% Cumulative, non-voting second preference shares, par value $10, redeemable at par.

— 20,000,000 Common shares without par value.

(b) *Issued and outstanding*

Common shares	Shares	Amount
December 31, 1973	14,144,897	$27,321,479
Issued during 1974 on the conversion of $2,000 of Series C, sub-series I, 9% convertible sinking fund debentures with the maximum currency adjustment of $500 into common shares at $2.00 each	1,250	2,500
December 31, 1974	14,146,147	$27,323,979

(c) *Reserved*

The Company has reserved common shares for possible issue as follows:

7½% Convertible subordinated sinking fund debentures (see (i) below)	122,300
Series B 1965 Warrants (see (ii) below)	504,750
Stock options (see (iii) below)	39,000
9% Convertible sinking fund debentures (see (iv) below)	4,059,389
	4,725,439

(i) 7½% Convertible subordinated sinking fund debentures — $921,000.

The conversion of these debentures at $7.53 per share would result in the issue of 122,300 common shares. Additional common shares would also be reserved if the conversion price were to decline as the result of future share issues at prices below $7.53 per share (see note 11(a)).

(ii) Series B 1965 Warrants.

Warrants to purchase 504,750 common shares at a price of $2.17 per share, on or before June 1, 1975 are outstanding.

(iii) Stock options.

Options to purchase 39,000 common shares are held by three directors and officers as follows:

Terms	Price	No. of Shares
3,000 shares in each of the 3 five-year periods ending October 9, 1975 to 1977 inclusive	$ 1.95	9,000
5,000 shares in the five-year period ending September 30, 1979	$ 0.50	5,000
5,000 shares in each of the 5 five-year periods ending September 19, 1977 to 1981 inclusive	$ 0.63	25,000
		39,000

(iv) 9% Convertible sinking fund debentures.

The conversion of these debentures, assuming the maximum currency adjustment applicable to Series C and D debentures as set out in note 10(e), would result in the issue of approximately 4,059,389 common shares.

14. Lease and similar obligations

(a) Payments required to be made pursuant to leases and similar obligations are as follows:

Years	Sale and Leaseback leases in effect (i)	Continuing costs of leases terminated (i)	Long-term land (ii)	Management agreement (iii)
1975	$ 1,833,000	$ 326,000	$ 318,000	$ 716,000
1976	1,829,000	322,000	318,000	716,000
1977	1,825,000	318,000	318,000	716,000
1978	1,815,000	308,000	318,000	716,000
1979	1,737,000	230,000	310,000	716,000
1980 and subsequent	16,323,000	1,126,042	23,693,000	12,267,659

(i) Under certain of the lease agreements relating to revenue producing properties which were sold and leased back, the lessor is to be paid a percentage of rentals in excess of a specified amount.

The rents included above for leases, whose latest year of expiry is 1999, are exclusive of participating rents, realty taxes, insurance, maintenance and repairs, and similar expenses.

Certain lease agreements permit the termination of continuing rental obligations upon the payment of a specified amount pertaining to each such lease, the total amount of such payments being $1,441,000. The continuing annual rental obligations of other leases are listed above.

(ii) The rents included above for long-term land leases, for which the latest year of expiry is 2067, are exclusive of realty taxes.

The Company may terminate the agreement and its liability thereunder by forfeiting a with the purchaser concerning operation and management by the Company of the properties until 1999. Under the agreement the Company is required to (i) pay annually to the purchaser a return of 8.25% to 9% before income taxes on the purchaser's invested equity, and (ii) make payments on the mortgages on the properties or, following discharge of any or all of the mortgages, pay annually 50% of the amounts previously payable thereon, to the purchaser. The aggregate of (i) and (ii) so payable are included in the payments detailed above. In addition, the purchaser is entitled to participate in net revenue, as defined, in excess of a stated amount for each of the properties.

The Company may terminate the agreement and its liability thereunder by forfeiting a mortgage of $350,000 taken back by the Company on the sale of the properties. That mortgage is included in "Mortgages receivable" in the consolidated balance sheet.

(b) The Securities and Exchange Commission of the United States of America requires disclosure of the present value of financing leases and of the impact on net income of the capitalization of such leases as follows:

(i) Total rental expense on non-capitalized financing leases amounted to approximately $2,867,000 during 1974; rental income from subleases of these properties amounted to approximately $7,532,000 during 1974.

(ii) The minimum lease commitments for all noncapitalized financing leases and the related rental income to be received from existing subleases at December 31, 1974 are as follows:

Years	Lease Commitments	Rental Income
1975	$ 2,867,000	$7,795,000
1976	2,860,000	7,760,000
1977	2,856,000	2,432,000
1978	2,849,000	1,709,000
1979	2,760,000	277,000
1980-84	12,532,000	827,000
1985-89	10,260,000	584,000
1990-94	7,451,000	—
1995 and subsequent	22,040,659	—

(iii) The present values of the minimum lease commitments and rental income referred to in (ii) above (all related to real estate) at December 31, 1974 amounted to $32,842,000 and $18,286,000, respectively.

If all these financing leases were capitalized, related assets amortized on a straight-line basis ($1,340,000), and the interest cost accrued on the basis of the outstanding lease liability ($1,593,000 — weighted average interest rate of 6.96%), there would be an adverse impact on net income for 1974 of $33,000.

15. Contingent liabilities

(a) The Company includes in the balance sheet its proportionate share of assets and liabilities of its joint ventures (see note 1(a)). The Company is contingently liable for the other participants' portion of the liabilities of these joint ventures, which contingent liability is approximately $7,800,000 as at December 31, 1974. Against this contingent liability, the Company has recourse to all of each joint venture's assets as well as the assets of the other participants to the extent it is required to pay liabilities in excess of its proportionate share.

(b) There are other miscellaneous contingent liabilities of the Company totalling $463,000.

(c) See note 16.

16. Legal proceedings

Legal proceedings to which the Company is currently a party are outlined below:

(a) A civil action in which the Company is named as a defendant and which claims damages of $1,250,000 is still outstanding in the United States District Court for the District of Massachusetts. Little pre-trial discovery has been conducted in the action. However, it is the view of counsel, based upon the information presently known to it, that this claim against the Company presents no substantial adverse financial risk except for legal fees and other costs related thereto.

(b) An action is pending in the Supreme Court of Ontario against the Company, Mr. Alex J. Rubin and Mr. Harry Rubin as defendants. The plaintiff seeks to recover $3,955,000 with respect to a public offering of common shares and a proposed offering of convertible debentures, and to obtain a declaration that he is entitled to 10% of the dollar value of any future offerings in the United States by the Company. In the opinion of counsel, there is an excellent prospect of successfully defending the action.

(c) On January 30, 1974, Century City Developments Limited (a subsidiary of the Company) filed a claim in the Federal Court of Canada for additional compensation for approximately 1,100 acres of lands expropriated by the Government of Canada in May, 1973 and for injurious affection to the balance of approximately 5,400 acres of land adjacent thereto.

Because of their contingent nature no provisions are made in the consolidated financial statements with respect to the unsettled actions referred to above.

(d) See also note 9.

17. Consolidated statement of income

(a) Interest charges

	1974	1973
Debentures — interest	$1,397,232	$1,369,387
— currency adjustment on principal	109,040	109,125
Mortgages	3,410,184	3,086,328
Other long-term debt	941,910	975,745
Short-term debt	85,797	25,706
	5,944,163	5,566,291
Less amounts capitalized	3,056,217	2,506,305
	$2,887,946	$3,059,986

(b) Income taxes

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows:

	1974	1973
Capital cost allowance over/(under) book depreciation	$ (171,700)	$ 88,400
Net increase in carrying costs of real estate expensed on tax returns and capitalized on the books	54,600	157,000
Prior years' timing differences resulting in tax losses which were applied in the current year	496,000	534,200
Net differences resulting from method of deferring incomes for tax and book purposes	166,200	(262,700)
Operating loss in a subsidiary company for which future recovery of taxes was provided	(75,000)	(120,100)
Sundry other items	(5,892)	(300)
Deferred tax expense	$ 464,208	$ 396,500

The Company does not anticipate any reduction in deferred income taxes payable in any of the succeeding three years.

Expected tax expense differs from actual tax expense as follows:

	1974		1973	
Computed expected tax expense	$ 461,400	52.5%	$1,158,200	51.0%
Increase in expected tax expense resulting from:				
— an item which is not allowed as a deduction from taxable income	29,400	3.4%		
— operating loss in a subsidiary company for which no future recovery of taxes was provided			126,300	5.6%
— other sundry items			79,800	3.5%
Decrease in expected tax expense resulting from:				
— the non-taxable portion of capital gains	(85,700)	(9.8%)		
— other sundry items	(19,396)	(2.2%)		
Tax expense	$ 385,704	43.9%	$1,364,300	60.1%

During the year certain subsidiaries of the Company earned profits which would have been subject to current income taxes except for the application of prior years' losses, such applications resulting in a reduction of income taxes of $32,866.

(c) Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding of 14,145,522 in 1974 (13,241,564 in 1973).

The conversion of all convertible debentures or the exercise of outstanding warrants or options would not have a dilutive effect on earnings per share in 1973 or 1974 and consequently fully diluted earnings per share is not provided.

(d) Aggregate direct remuneration paid to directors and senior officers was $341,574 in 1974 ($290,482 in 1973).

FOUR YEAR SUMMARY OF OPERATIONS

(In Thousands)

	1974	1973	1972	1971
Sales — real estate and construction	$ 8,218	$ 8,740	$ 11,766	$ 18,176
Cost of sales	7,003	6,539	9,049	16,287
	1,215	2,201	2,717	1,889
Net transfer from/(to) deferred income	530	1,178	666	(27)
	1,745	3,379	3,383	1,862
Rental income	10,298	9,927	9,803	9,124
Property expenses including depreciation	7,795	7,944	8,209	8,158
	2,503	1,983	1,594	966
Other income	1,166	1,688	1,511	1,509
	5,414	**7,050**	**6,488**	**4,337**
Interest expense net of amount capitalized	2,888	3,060	3,752	3,426
Other expenses	1,648	1,720	1,680	1,806
Income (loss) before income taxes and extraordinary items	878	2,270	1,056	(895)
Income taxes	386	1,364	332	512
Income (loss) before extraordinary items	**492**	**906**	**724**	**(1,407)**
Extraordinary items				
Income tax reductions	33	838	696	—
Debenture financing costs	—	—	—	(172)
Net income (loss) for the year	**$ 525**	**$ 1,744**	**$ 1,420**	**($ 1,579)**
Earnings (loss) per share before extraordinary items	3.5¢	6.8¢	6.2¢	(12.8¢)
Earnings (loss) per share after extraordinary items	3.7¢	13.2¢	12.1¢	(14.4¢)
Average number of shares (in thousands)	14,146	13,242	11,746	10,962

Analysis of Operations

Sales of real estate held for development or sale have shown a steady decline in the years 1971 through 1974. Sales for the year 1971 were especially high since the Company was selling undeveloped real estate in order to create liquidity. The sales declined in subsequent years because land held for development in the Province of Ontario could not be brought to market as quickly as anticipated as the result of the introduction of Government controls and regulations. Sales in 1974 included a significant number of sales of completed housing units as compared to sales of developed land in the immediately preceding years. The resulting gross profit on such sales was proportionately less on that account. Planned activities in the Province of Quebec and through recently created joint ventures should reverse both the sales and profit trend.

In 1971 and 1972 the Company sold a number of its revenue producing buildings in order to generate cash. One building, which was no longer required, was sold in 1974. Management intends to follow a policy of selective sales of less productive income producing real estate in future years as replacement buildings are constructed.

In 1973 and 1974 the Company sold certain of its mortgages receivable at a loss in order to improve its liquidity. A limited number of such mortgages may be sold in the future.

Net transfers from deferred income in the years 1972 to 1974 inclusive, resulted from the completion of sales which were originally recorded in prior years. Transfers to and from deferred income in future accounting periods are dependent upon the conditions inherent in the sales agreements. These transfers will be made in accordance with generally accepted accounting principles.

1974 SHARE TRADING

Shares of the company were restored for trading on the Toronto Stock Exchange on February 9, 1974. Following is a summary of trading by quarters during the year:

	1st	2nd	3rd	4th
High	2.67	2.55	1.35	.90
Low	1.65	1.20	.70	.56

SUMMARY OF PRINCIPAL HOLDINGS

DECEMBER 31, 1974

	Number of Residential Units			
	Completed	Under Construction	Rentable Area (approx. sq. ft.)	% Company Participation
Revenue producing property owned:				
Industrial				
Toronto and vicinity, Ontario			1,206,400	100
Toronto and vicinity, Ontario			54,700	50
Montreal, Quebec			867,600	100
Calgary, Alberta			24,000	100
Commercial and residential				
City Hall, Saint John, New Brunswick			205,300	100
Montreal, Quebec			107,500	100
The Colonnade, Toronto, Ontario	156		74,200	100
College Street, Toronto, Ontario			90,000	100
Bloor Street, Toronto, Ontario	16		11,700	50
Jane Street, Toronto, Ontario	438	722	—	67
Yonge Street, Toronto, Ontario			7,400	100
Chateau Plaza, Pittsburgh, Pa. (U.S.A.)			42,800	100
Stafford Street, Winnipeg, Manitoba			8,000	100
Hill Island (Gananoque), Ontario			(50 unit motel)	100
Revenue producing property sold and leased back:				
Residential				
Toronto, Ontario	559			100
Halifax, Nova Scotia	240			100
Saint John, N.B.	152			100
Commercial				
Halifax, Nova Scotia			141,900	100
Toronto, Ontario			15,200	100
Industrial				
Montreal, Quebec			153,100	100
Toronto, Ontario			667,300	100
Toronto, Ontario			74,000	50
	1,561	722	3,751,100	

Land held for development or sale

Property	Proposed Use	Approximate Number of Acres Under Development 1975-1976	Approximate Number of Acres Future Development	% Company Participation
Acton, Ontario	Residental		94	75
Boucherville, Quebec	Multiple	35	285	100
Etobicoke, Ontario	Residential	9		100
Toronto, Ontario	Commercial		1	50
Guelph, Ontario	Multiple	33	875	75
Orangeville, Ontario	Commercial & Residential	9		75
Montreal, Quebec	Industrial		2	100
Pickering, Ontario	Multiple		294	75
Pointe Claire, Quebec	Industrial & Commercial	8	13	100
Port Dover, Ontario	Commercial & Residential		93	33.3
Simcoe, Ontario	Residential	75		33.3
Oakville, Ontario	Commercial & Residential	7		37.5
Oakville, Ontario	Residential	210		15
Uxbridge, Ontario	Multiple		5,400	76.25
Vaughan, Ontario	Multiple		215	40
Ville La Salle, Quebec	Commercial & Industrial	5		100
		391	7,272	

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